

Message Text

LIMITED OFFICIAL USE

PAGE 01 BONN 13297 01 OF 02 151743Z

43

ACTION EB-07

INFO OCT-01 EUR-12 ISO-00 SP-02 AID-05 NSC-05 CIEP-01

TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00 COME-00

FRB-03 INR-07 NSAE-00 USIA-06 XMB-02 OPIC-03 LAB-04

SIL-01 L-03 H-02 PA-01 PRS-01 TAR-01 /088 W

----- 082656

R 151728Z AUG 75

FM AMEMBASSY BONN

TO SECSTATE WASHDC 2182

INFO AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

USMISSION OECD PARIS

USMISSION EC BRUSSELS

AMCONSUL BREMEN

AMCONSUL DUSSELDORF

AMCONSUL FRANKFURT

AMCONSUL HAMBURG

AMCONSUL MUNICH

AMCONSUL STUTTGART

USMISSION USBERLIN

LIMITED OFFICIAL USE SECTION 01 OF 02 BONN 13297

DEPARTMENT PASS TREASURY, CEA AND FRB

E.O. 11652: N/A

TAGS: EFIN, GW

SUBJECT: FINANCE AND ECONOMICS MINISTRY SPECIAL

ADVISORY GROUPS' RECOMMENDATIONS ON BELT-
TIGHTENING AND INDEXING

1. SUMMARY. AN INDEPENDENT ADVISORY BODY HAS
RECOMMENDED WIDE-RANGING BUDGET CUTTING MEASURES THAT
WOULD REDUCE GOVERNMENT EXPENDITURES AS A WAY OF
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 BONN 13297 01 OF 02 151743Z

COMBATting THE GROWING FRG DEFICIT. IN SO DOING IT

NICELY SUPPORTS THE FINANCE MINISTER'S OWN EFFORTS TO REIN IN THE SPENDERS, AND STRENGTHENS HIS HAND IN THE SCHEDULED END-OF-AUGUST BUDGET MEETINGS. THE PRINCIPLE THRUST OF THE REPORT IS AT ECONOMIZING AND SUGGESTS TAX INCREASES BE USED ONLY AS A LAST RESORT. WHILE RESPONSE TO THE FINANCE ADVISORY GROUP'S BASICALLY CONSERVATIVE REPORT HAS BEEN LARGELY POSITIVE, A SIMILAR BODY ADVISING THE ECONOMICS MINISTER PROPOSED A SELECTIVE INDEXATION OF TAXES, MORTGAGES, SAVINGS DEPOSITS, ETC., TO COUNTER INFLATION. THIS BALLOON WAS ALMOST UNIVERSALLY SHOT DOWN BY FRG SPOKESMEN, BUSINESS, AND LABOR, AS BEING AN UNWISE POLICY. END SUMMARY.

2. THE WAYS OF DEALING WITH THE GROWING GAP BETWEEN TAX REVENUES AND GOVERNMENT EXPENDITURES WAS THE SUBJECT OF A FINANCE MINISTRY SPECIAL ADVISORY COUNCIL REPORT MADE PUBLIC AUGUST 11. THE 1975 FEDERAL DEFICIT, WHICH NOW SEEMS DESTINED FOR WHAT SOME FEEL IS THE ASTRONOMICAL LEVEL OF DM 40 BILLION AND THE PROSPECT OF AN EVEN HIGHER AMOUNT IN 1976, HAS BEEN THE OBJECT OF MUCH CONCERN, CONTROVERSY AND CRITICISM. THE REPORT OF THE QUASI-INDEPENDENT ADVISORY COUNCIL SERVED TO PUT THE MATTER IN BETTER PERSPECTIVE AND REFLECTED TO A GREAT EXTENT FINANCE MINISTER HANS APEL'S OWN VIEWS ON THE NECESSITY FOR A HARDNOSED AND BELT-TIGHTENING APPROACH TO GOVERNMENT SPENDING. COMING AS IT DID ON THE EVE OF THE PRESENTATIONS OF A 1975 SUPPLEMENTARY BUDGET AND CABINET DISCUSSIONS OF THE 1976 BUDGET, IT WAS A USEFUL TOOL FOR THE FINANCE MINISTER IN SUPPORTING HIS EFFORTS TO CURB THE DEMANDS OF HIS FELLOW MINISTERS FOR BIGGER SLICES OF THE BUDGETARY PIE.

IT ALSO SERVED AS A TRIAL BALLOON FOR TOUGH ECONOMY MEASURES, WHICH, RATHER THAN BEING SHOT DOWN, SEEMS SUCCESSFULLY TO HAVE ALSO FLOATED AMONGST BUSINESS AND PUBLIC ALIKE. CERTAINLY IT MUST BE CONSIDERED AN EARLY-WARNING TYPE GUIDE TO THE PRIORITIES AND LIKELY FUTURE DIRECTION OF FRG FISCAL POLICY.

LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 BONN 13297 01 OF 02 151743Z

3. SPECIFIC TARGETS FOR ECONOMY MEASURES, ACCORDING TO THE COUNCIL, INCLUDE REGIONAL DEVELOPMENT PROGRAMS, DEVELOPMENT AID, PRICE GUARANTEES, TAX PRIVILEGES AND SUBSIDIES FOR FARMERS, GOVERNMENT SAVINGS BONUSES, AND GOVERNMENT CONTRIBUTIONS TO THE SOCIAL SECURITY SYSTEMS. THE EXPERTS ALSO SEE SAVINGS POTENTIALS THROUGH RATIONALIZATION IN THE PUBLIC TRANSPORT SECTOR, CURTAILMENT OF DISPROPORTIONATELY HIGH

OUTLAYS FOR CERTAIN LINES OF EDUCATION, AND INTRODUCTION
OF "SELF-PARTICIPATION" UNDER THE HEALTH INSURANCE
SCHEME. LAST BUT NOT LEAST, THE EXPERTS TAKE EXCEPTION
TO THE DEVELOPMENT OF GOVERNMENT PERSONNEL EXPENDITURES.
IN PARTICULAR, THEY QUESTION THE WISDOM OF HIGH ACROSS-
THE-BOARD PAY BOOSTS INDEPENDENT OF PERFORMANCE AND
PERSISTENT "STRUCTURAL IMPROVEMENTS" (PRESUMABLY MEANING
GENEROUS PROMOTION PRACTICES). ALSO, THEY WOULD LIKE TO
SEE THE INCREASE IN GOVERNMENT EMPLOYMENT CHECKED.
MOREOVER THE COUNCIL ADVOCATES A REDUCTION OF GOVERNMENT
SUBSIDIES FOR PUBLIC SECTOR ENTERPRISES, SUCH AS THE
FEDERAL POST AND RAILWAYS, BY RAISING TARIFFS AND

LIMITED OFFICIAL USE

NNN

LIMITED OFFICIAL USE

PAGE 01 BONN 13297 02 OF 02 151745Z

43

ACTION EB-07

INFO OCT-01 EUR-12 ISO-00 SP-02 AID-05 NSC-05 CIEP-01

TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00 COME-00

FRB-03 INR-07 NSAE-00 USIA-06 XMB-02 OPIC-03 LAB-04

SIL-01 L-03 H-02 PA-01 PRS-01 TAR-01 /088 W

----- 082670

R 151728Z AUG 75

FM AMEMBASSY BONN

TO SECSTATE WASHDC 2183

INFO AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

USMISSION OECD PARIS

USMISSION EC BRUSSELS

AMCONSUL BREMEN

AMCONSUL DUSSELDORF

AMCONSUL FRANKFURT

AMCONSUL HAMBURG

AMCONSUL MUNICH

AMCONSUL STUTTGART

USMISSION USBERLIN

LIMITED OFFICIAL USE SECTION 02 OF 02 BONN 13297

LIMITING PREFERENTIAL RATES AND BY GENERAL RATIONALIZATION, INCLUDING SAVINGS IN PERSONNEL OUTLAYS. IT IS A WIDE RANGE OF SENSITIVE PROGRAMS THAT ARE MARKED AS VULNERABLE TO THE BUDGET CUTTER'S KNIFE AND IS PERHAPS MORE AMBITIOUS THAN POLITICAL REALITIES WILL PERMIT IN THE LONG RUN, HOWEVER, THE GAUNTLET HAS BEEN THROWN DOWN BY THE MINISTER'S SURROGATE, THE ADVISORY COUNCIL.

4. TURNING FROM THE EXPENDITURE TO THE REVENUE SIDE,
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 BONN 13297 02 OF 02 151745Z

THE COUNCIL SEES NEED FOR IMPROVED TAX ASSESSMENT, COLLECTION AND CONTROL METHODS (IN THIS CASE EVEN AT THE EXPENSE OF INCREASING PERSONNEL OF THE REVENUE SERVICE, IF NECESSARY), POINTING OUT THAT TAX ARREARS CURRENTLY AMOUNT TO DM 8.2 BILLION. ACCORDING TO THE COUNCIL, IT WOULD BE WRONG AT THIS POINT IN THE DEPRESSED BUSINESS CYCLE TO CONSIDER TAX INCREASES "UNAVOIDABLE". NEVERTHELESS, THE COUNCIL IS NOT OPPOSED TO RAISING REVENUES BY CURTAILMENT OF TAX PRIVILEGES, SUCH AS THOSE ENJOYED BY BANKING AND AGRICULTURE. AS A LAST RESORT, SOMEWHAT HIGHER TAXATION OF TOBACCO, GASOLINE, ALCOHOL AND BEER IS HELD TO BE ACCEPTABLE. THE SAME APPLIES TO A MODEST VALUE ADDED TAX INCREASE OF 2 PERCENTAGE POINTS (FROM 11 - 13 PERCENT), BUT A HIGHER RATE THAN THIS SHOULD NOT BE CONSIDERED BECAUSE OF THE INFLATIONARY EFFECT INVOLVED (TIMING VAGUE).

5. A SIMILAR ADVISORY BODY TO THE ECONOMICS MINISTRY AND HEADED BY THE CONTROVERSIAL DR. HERBERT GIER SCH CAME OUT ON AUGUST 13 WITH A STUDY THAT RECOMMENDED THAT A SYSTEM OF INDEXATION BE SELECTIVELY APPLIED AS A MEANS FOR DEALING WITH INFLATION. THIS THEME HAS BEEN THE PET IF NOT OBSESSION OF DR. GIER SCH FOR SOME TIME, AND HE FINALLY HAS OBTAINED A BROADER SOUNDING BOARD FOR HIS THEORIES. BUT, APPARENTLY THERE HAVE BEEN FEW IF ANY CONVERTS SO FAR. ECONOMICS MINISTER FRIDERICH'S POLITELY TERMED IT "INTERESTING" BUT ADDED THAT IT WOULD HAVE NO IMPACT ON POLICIES. BOTH SPD AND CDU SPOKESMEN HAVE REFERRED TO IT AS AN UNSUITABLE MEANS TO FIGHT INFLATION. BUSINESS AND LABOR HAVE ALSO REJECTED THE INDEXATION PROPOSAL. ALL IN ALL, THIS LARGELY PERSONAL REPORT OF DR. GIER SCH WAS A MUCH LESS SIGNIFICANT STUDY THAN THE EARLIER-DESCRIBED FINANCE COUNCIL EFFORT.

6. ACCORDING TO THE GIERSCHE REPORT, INCOME TAXES, AS WELL AS PROPERTY AND INHERITANCE TAXES, SHOULD BE TIED BY LAW TO THE DEVELOPMENT OF LIVING COSTS. ARGUED WAS THAT PURELY NOMINAL, INFLATIONARY INCREASES OF INCOME UNDER THE CURRENT SYSTEM LEAD TO PROGRESSIVELY HIGHER TAXATION. TAXATION SHOULD BE LIMITED TO REAL GAINS, LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 BONN 13297 02 OF 02 151745Z

I.E., TO THE EXCESS OVER INFLATION, BY ADJUSTING TAX LIABILITIES AND EXEMPTIONS ACCORDINGLY. IN CASES OF BELATED PAYMENTS OF TAXES, ON THE OTHER HAND, THE LIABILITY IS TO BE RAISED BY THE PERCENTAGE OF PRICE INCREASES INCURRED SINCE THEY BECAME DUE. ALSO, THE REPORT ADVOCATES INDEXING OF MORTGAGE LOANS, MUNICIPAL AND INDUSTRIAL BONDS AND LONG-TERM SAVINGS DEPOSITS TO FORESTALL INFLATION-INDUCED LOSSES OR GAINS. AS FAR AS WAGES ARE CONCERNED, THE ADVICE IS AGAINST INTRODUCTION OF INDEX CLAUSES BY GOVERNMENT DECREE BUT MERIT WAS SEEN IN PERMITTING VOLUNTARY AGREEMENTS TO SUCH CLAUSES IN COLLECTIVE BARGAINING NEGOTIATIONS. CASH

LIMITED OFFICIAL USE

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: GOVERNMENT BUDGET, GOVERNMENT EXPENDITURES, ANTIINFLATIONARY PROGRAMS
Control Number: n/a
Copy: SINGLE
Draft Date: 15 AUG 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: GolinoFR
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975BONN13297
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D750283-0164
From: BONN
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19750846/aaaabobc.tel
Line Count: 249
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EB
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: GolinoFR
Review Comment: n/a
Review Content Flags:
Review Date: 21 APR 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <21 APR 2003 by CunninFX>; APPROVED <22 APR 2003 by GolinoFR>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
06 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: FINANCE AND ECONOMICS MINISTRY SPECIAL ADVISORY GROUPS' RECOMMENDATIONS ON BELT-
TAGS: EFIN, GE
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006